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MICROFINANCE APEX ORGANIZATIONS IN WEST AFRICA: THE CASE OF BENIN

by

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Report prepared for
the CGAP-OSU Research Project on Microfinance Apex Mechanisms

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I

Introduction

A. Rationale and Objectives

This report presents a case study among several undertaken by investigators of the Rural Finance Program at The Ohio State University in collaboration with the Consultative Group to Assist the Poorest (CGAP). The purpose of the research project is to gain a better understanding of the role, criteria of operations, and successes and challenges of apex organizations in their support of the development of sustainable microfinance organizations (MFOs). The objective is to examine the rationale for the existence and evaluate the performance of apex organizations by deriving lessons from the experience of a few representative examples of this instrument for the promotion of microfinance.

This report focuses on West Africa, and it includes two case studies from Benin, namely the *Projet d'Appui au Développement des Micro Entreprises* (PADME) and the *Fédération des Caisses d'Epargne et de Crédit Mutuel* (FECECAM). These case studies illustrate the difficulties of promoting microfinance in countries with very low per capita incomes, disperse rural populations, and subject to significant exogenous shocks that increase the risks faced by poor household-firms and the organizations that lend to them.

The recommendations from the case studies are meant to provide CGAP and the donor community with rigorous criteria and cost-effective tools to design better policies to reach poor household-firms via microfinance. The main questions addressed by the study are the following:

(a) How successful have been particular apex organizations?

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1 Report on a case study prepared after a field visit by Korotoumou Ouattara, as part of the CGAP-OSU research project on Microfinance Apex Mechanisms. The opinions expressed are those of the authors and do not necessarily reflect those of the sponsoring organizations.

2 Ouattara is Research Specialist and Gonzalez-Vega is Professor of Agricultural, Environmental, and Development Economics and Director of the Rural Finance Program at The Ohio State University. The authors are grateful to Mohini Malhotra and Richard Rosenberg for their comments and support.

(b) What are likely determinants of this success? How generalizable are the observed preconditions for success to other apex organizations that operate in similar environments?

(c) What difference has the apex organization made in the development of the microfinance industry in the particular country?

(d) What lessons can be learned about worse or better organizational designs of the apex mechanisms from the experience of the particular case study?

B. Selection of the Organizations

The organizations analyzed in this report were selected from a preliminary inventory of microfinance organizations engaged in apex activities in Africa. For the purposes of this research project, an apex organization was defined as a wholesaling, second-tier mechanism created to facilitate the disbursement of funds and the development of the sustainable capacity of retailing microfinance organizations.[3] Apex organizations can be defined both by their operation with retailing microfinance organizations and by the provision of one or more of the following services:

(a) the wholesaling of loanable funds on behalf of donors and governments,

(b) the screening and certification of microfinance organizations that fulfill certain eligibility criteria,

(c) the operation of loan-guarantee facilities,

(d) institution-building support in the form of technical assistance and/or training of the staff of retailing microfinance organizations, and

(e) the prudential supervision of microfinance organizations.

Although the research project has examined several of these functions that the apex organization may perform, it has primarily focused on the apex efforts to create sustainable capacity at the retailing microfinance levels as well as on the sustainability of the apex organization itself.

Given a generalized scarcity of microfinance apex organizations with sufficient experience in Africa, Benin was chosen for the implementation of field research after the realization that this country hosts several organizations that meet the criteria for an apex outlined above. These organizations are PADME, AFRICARE, and FECECAM.

These organizations were visited in November 1997 to gain a deeper understanding of their operations.[4] Several interviews were conducted at all levels, starting with the management, staff

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3 For a conceptual framework for the research project, see Claudio Gonzalez-Vega, "Microfinance Apex Mechanisms: Concepts, Synthesis of Lessons, and Recommendations," Columbus, Ohio: The Ohio State University, 1998.

4 Koro Ouattara was in Cotonou November 4-29, 1997. The trip also included the observation of village banking programs for the purposes of another research project (Korotoumou Ouattara and Claudio Gonzalez-Vega, ...).

members, and board officials of the organizations. Partner NGOs were also visited and interviewed. Finally, several clients were visited in Cotonou and other more rural towns to elicit their insights and expectations about the organization. Documents and available data were collected. These materials, along with interview responses, form the basis of the information reported here.[5]

It is fair to state that the organizations selected for this case study have demonstrated some degree of success in their operations despite the formidable obstacles faced by any microfinance organization in this environment. Further progress will be needed, however, for a more successful development of the microfinance industry in Benin.

The first case study, about PADME, is an example of an organization pushed by donors to undertake apex responsibilities without being prepared for such a task. The relationship of PADME with AFRICARE, which initiated the apex role of PADME, is highlighted. This situation is not unique. Several comparatively successful MFOs have been asked by donors to play the role of apex mechanisms, in recognition both of their relative strengths and of the difficulties of creating new institutions in these countries. This dual role creates a tension between the wholesaling and the retailing functions of the organization and, as in the case of K-REP in Kenya, the apex activities are eventually abandoned.[6]

The second case study describes FECECAM, an apex organization that oversees the largest credit union network in West Africa. The report shows that FECECAM is still defining and perfecting its role as a financial intermediary. Some relevant questions still remain: can and should FECECAM be used to expand the frontier of the microfinance industry in Benin? Can and should FECECAM be replicated? How do these experiences compare to those of similar organizations in other West African countries?

C. Organization of the Report

The report starts by placing the study in context and by describing, in Chapter II, the economic environment in which these apex organizations operate. Chapter III analyzes PADME, while Chapter IV focuses on FECECAM. Chapter III also discusses the relationship between PADME and AFRICARE, while Chapter IV contrasts FECECAM to other federations of credit cooperatives in West Africa. Chapter 5 offers conclusions and recommendations for the donor community.

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5 Given the short duration of the visit and limitations of the information available, this report should not be interpreted as a complete evaluation of these organizations, but more as an opportunity to generate some lessons about microfinance apex organizations in very poor countries from the experiences of these organizations.

6 This process may be contrasted with the trend, particularly in small countries, of apex organizations that eventually start their own retailing operations.

II

The Economic Environment in Benin

A. General Information on Benin

The country of Benin, former Dahomey, is located in West Africa, and it covers a land area of 112,622 sq. km. It is bordered on the south by the Atlantic Ocean, on the northeast by Niger, on the northwest by Burkina Faso, on the east by Nigeria, and on the west by Togo. The country is subdivided into six regions or departments: Atacora (northwest region), Borgou (northeast region), Zou (central region), Mono (southeast region), Atlantique (south central region), and Ouémé (southeast region).

The population of Benin is 5.7 million inhabitants, of which 51 percent are women (1996 IMF estimates). Given an annual growth rate of 3 percent, the population is expected to reach 6.3 million by the year 2000. Population density is 44 people per square kilometer. Almost three-quarters of the population live, however, in the southern half of the country, and the south has a population density of over 120 people per square kilometer. The Capital City of Benin is Porto-Novo, with 450,000 inhabitants, and it is located in the Ouémé department (Map). This is still a comparatively low rate of population density.[7] The World Bank estimates that 60 percent of the population live in rural areas.

The official language in Benin is French, although there are approximately 20 ethnic groups that speak several different African languages. More than half the population speaks Fon while Yoruba, Mina, Bariba, and Dendi are other important languages. Over half the population in Benin are animists and voodoo believers, while 15 percent are Christian and 15 percent are Muslim. The literacy rate in Benin is 37 percent for the entire population, 49 percent for the male population, and 17 percent among women. This literacy rate is about 25 percentage points below that in neighboring West African countries. A poorly educated population reduces the economic opportunities available to the poor, and it shrinks the pool of human resources available for the staff and management of microfinance organizations.

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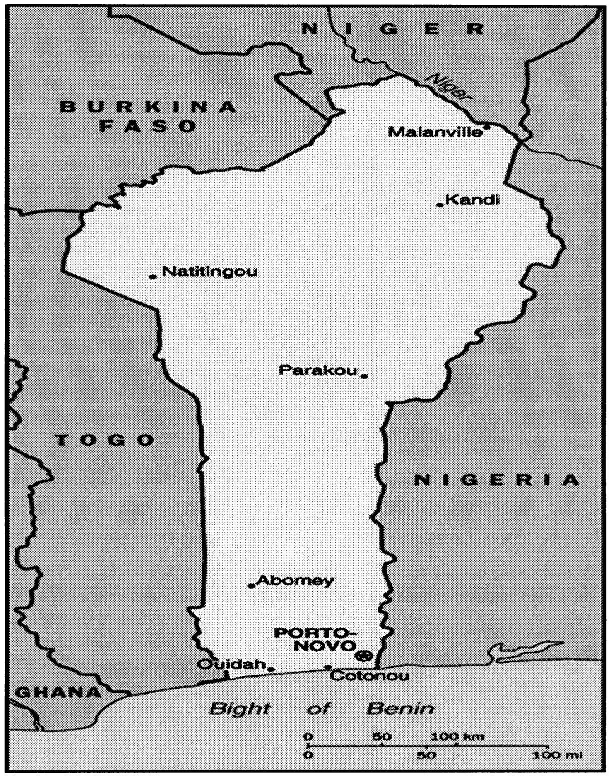
7 Although per capita income in Benin is slightly higher than in Bangladesh, the much higher density of population in Bangladesh creates a very different environment for the development of microfinance (Nagarajan and Gonzalez-Vega, 1998).

Figure 1. Map of Benin



B. The Economy

With a Gross National Product per capita of US $ 370 in 1995, according to World Bank estimates, Benin is one of the poorest countries in the world. Gross Domestic Product per capita was US $ 418 in 1996. Out of 173 countries, in 1992. the Human Development Index of the United Nations Development Program ranked Benin as number 156 Given the poverty of the population, access to financial services is severely constrained. The economy remains in general underdeveloped, and Benin experienced great economic difficulties in the late 1980s associated with an overvalued currency, weak primary commodity prices, and mismanagement of public finances. A limited physical and institutional infrastructure has constrained economic opportunities, while macroeconomic instability has added risks to the uncertainties of economic life in general in this environment.

In many respects, economic performance in Benin is strongly linked to that of its powerful neighbor, *i.e.*, to Nigeria's oil booms and slumps. Trade and migration across the border are important sources of income in Benin. Growth in real Gross Domestic Product (GDP) averaged 2.4 percent a year in the 1980-92 period, according to World Bank estimates. Under a structural adjustment program started in 1991, Benin increased its growth in real GDP to 4 percent per year over the 1990-94 period, and even reached 6 percent real GDP growth in 1995. GDP increases were offset by a high annual rate of population growth of 3 percent (World Bank data).

Inflation remained low at an average of 1.9 percent during the period 1990-93, rose to 38.5 percent in 1994 following the devaluation of the currency that year, but subsided gradually in 1995 and was below 5 percent in 1996 (IMF statistics).

The economy of Benin was once highly dependent on subsistence agriculture and on cotton production. In recent years, however, the share of the agricultural sector in Benin's economy has been falling. Value added in agriculture accounted for 37 percent of GDP, while agriculture employed about 40 percent of the active labor force (Table 1). The industrial sector contributes about 8 percent of GDP, and it employs 14 percent of the active labor force. Services contribute the most to GDP (54 percent) while employing 38 percent of the active labor force.

The dominance of the service sector reflects Benin's role as a channel for the region's foreign trade, and it especially reflects the importance of transit trade and transport activities with neighboring costal countries such as Nigeria and Togo as well as with landlocked countries such as Burkina Faso. Commerce with Nigeria alone provides a quarter of GDP, and it is extremely vulnerable to developments in Nigeria, as was the case when re-export trade decreased in 1994 due to a severe contraction in demand from Nigeria. A comparison of the contributions of each sector to output and to employment suggests that the productivity of labor is higher in some of the service sectors than in agriculture and manufacturing. A substantial share of microentrepreneurial activity takes place in trade and other service activities.

Table 1: Sectoral Composition of GDP in Benin (at current prices), 1986-91.

Sectors	1986 Value (billion CFAF)	1986 Share in GDP (%)	1991 Value (billion CFAF)	1991 Share in GDP (%)
1. Agriculture	200.2	39.8	199.0	37.2
2. Industry	28.3	5.6	45.1	8.4
3. Services	274.2	54.6	291.2	54.4
Water and electricity	4.3	0.9	5.0	0.9
Construction	24.6	4.9	17.6	3.3
Commerce and hotels	96.6	19.2	89.3	16.7
Transportation and communications	48.1	9.6	40.3	7.5
Public administration	39.3	7.8	50.6	9.4
Banking and insurance	34.5	6.9	64.0	12.0
Taxes	26.8	5.3	24.4	4.6
Total GDP	**502.8**	**100.0**	**535.5**	**100.0**

Source: EIU country profile and data from Benin, *Ministère du Plan, de la Statistique et de l'analyse Economique*.

C. Financial Markets

The role of microfinance and the efforts of apex organizations that are attempting to promote the development of the sector must be understood in the context of the rudimentary and fragmented financial markets of Benin.

1. Financial Deepening

Benin is member of the Franc Zone and of the *Union Economique et Monétaire Ouest Africaine* (UEMOA), which includes seven francophone countries: Benin, Burkina Faso, Côte d'Ivoire, Niger, Senegal, and Togo. The Union was created in 1962 with a common Central Bank, *Banque Centrale des Etats de l'Afrique de l'Ouest* (BCEAO), located in Dakar, Senegal, and national branches in member states. All members of UEMOA use the CFA Franc (CFAF) as their currency. The CFAF has been pegged to the French Franc at FF 1 = 100 CFAF after the devaluation of the currency in January of 1994. Exchange controls apply to all currencies other than the CFA Franc and French Franc. Monetary policy, currency, and trading regulations in Benin are controlled and determined by the country's membership in the Franc Zone. Recently, this common regulatory framework has been extended to microfinance through the PACMEC Law.

An important indicator of the growing complexity of an economy is the degree of financial sophistication and the range of financial market instruments available. In a global sense, this is commonly measured by examining the growth of money aggregates in real terms and the ratio of money to GDP, the velocity of money, and the relationship between currency and deposits.

Table 2 : Financial Indicators of Benin (billion CFAF and percentages), 1990-996.

	1990	1991	1992	1993	1994	1995	1996
Demand Deposits	58.5	67.4	72.9	84.6	106.3	107.8	114.8
Time deposits	29.5	31.7	47.9	59.3	66.1	86.0	90.5
Total bank liabilities	88.0	99.1	120.8	143.9	172.4	193.8	205.3
Demand deposits/Total Liabilities (%)	66.5	68.0	60.3	58.8	61.7	55.6	55.9
Time Deposits/Total Liabilities (%)	33.5	32.0	39.7	41.2	38.3	44.4	44.1
Claims on the private sector	102.1	86.2	69.4	67.7	75.0	80.4	102.4
Total bank Assets	116.0	118.9	140.6	125.2	256.9	263.7	284.1
Claims on private sector/Total assets (%)	88.0	72.5	49.5	54.1	29.2	30.5	36.0
Deposit interest rate	7.0	7.0	7.8	n.a.	n.a.	n.a.	n.a.
Lending interest rate	16.0	16.0	16.8	n.a.	n.a.	n.a.	n.a.
Gross financial margin	9.0	9.0	9.0	n.a.	n.a.	n.a.	n.a.
Annual inflation rate	n.a.	n.a.	n.a.	0.5	38.5	14.5	4.8

Source: IMF Statistics.

Table 3: Financial Deepening Measures for Benin (billion CFAF and percentages).

	1990	1991	1992	1993	1994	1995	1996
Money (M1)	104.6	116.7	128.2	111.3	186.2	161.7	189.6
M1 growth (%)	23.9	11.6	9.9	-13.2	67.3	-13.2	17.3
Quasi-money	29.5	31.7	47.9	59.3	66.1	86.0	90.5
Money plus quasi-money (M2)	134.1	148.4	176.1	170.6	252.3	247.7	280.1
M2 growth (%)	28.6	10.7	18.7	-3.1	47.9	-1.8	13.1
Gross Domestic Product (GDP)	502.2	535.8	570.8	601.7	845.6	1,056.6	1,162.1
Quasi-money/GDP (%)	5.9	5.9	8.4	9.9	7.8	8.1	7.8
M2/GDP (%)	26.7	27.7	30.9	28.4	29.8	23.4	24.1

Source: IMF Statistics.

The relevant data for Benin for the 1990-1996 period are reported in Tables 2 and 3. The data reveal a low degree of financial deepening, as reflected by ratios of M2 to GDP below 30 percent. That is, the size of formal financial intermediation is small compared to the size of the economy. This is comparable, however, to low degrees to financial progress in other Francophone African countries. Moreover, financial deepening declined in recent years, as money holdings failed to grow as rapidly as the economy. This may be due, in part, to monetary policy, as a rapid nominal expansion of the money supply in 1994, which led to inflationary pressures, was followed by a more restrictive monetary policy in 1995 and 1996. Furthermore, most money holdings are for transaction purposes, while money plays a minor role as a store of value, as shown by the low and stable ratios of quasi-money to GDP. The proportion of time deposits with respect to the total liabilities of the banking system increased, however, from 34 percent in 1990 to 44 percent in 1996, even with unchanged nominal interest rates on deposits.

The effects of limited formal financial intermediation were made even worse by a contraction of bank credit to the private sector. Despite the steady increase in deposits at the banks (at least in nominal terms), bank credit for the private sector declined (even in nominal terms) from CFAF 102 billion in 1990 to CFAF 68 billion in 1993, and credit only recovered to the 1990 level until 1996.[8] Claims on the private sector as a proportion of the total assets of the banking system declined from 88 percent in 1990 to 29 percent by 1994 and had only recovered to 36 percent by 1996, as confidence in the banking sector slowly built up again. This suggests, however, a major crowding out process, and a retrenchment of bank lending to the private sector. The accompanying loss of access to bank credit for many former clients would further complicate the challenge for the economy of funding investment and productive activities.

One reason for the reduction of bank credit outstanding for the private sector could have been the write-off of several loans after the failure of the banking system in the late 1980s. Restructuring of the banks started in 1990, but it has not been sufficient to promote a significant increase in financial deepening in Benin. In summary, Benin faces major challenges in harnessing the contributions of the financial system for economic development. Expansion of microfinance faces even more formidable obstacles.

2. The Banking System

The Government of Benin nationalized the existing banks in 1974, after the president Major Mathieu Kérékou declared Marxism-Leninism as the country's official ideology. All banks were absorbed into a state-owned single commercial bank, the *Banque Commerciale du Benin*. Two other

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[8] Benin experienced a contraction of its money supply in 1993 due to a reduction in the government's borrowing from the banking sector coupled with the effect of restrictions on CFA Franc notes. In August 1993, as a measure to curtail capital flight, the Franc Zone countries placed restrictions on the export of CFA Franc notes outside the Zone. The authorities announced that they would no longer repurchase CFA Franc notes that had left the Zone through other than recognized banking channels.

financial institutions, the *Banque Béninoise pour le Développement* and the *Caisse Nationale de Crédit Agricole* (CNCA), were set up to disburse long-term and agricultural loans. By the end of 1988, all three organizations had severe liquidity and management problems. In 1990, a complete restructuring of the banking system took place shortly after the country abandoned its Marxist-Leninist ideology.

The restructuring of the state-owned banking sector in 1990 gave rise to a formal financial sector of five private commercial banks. These banks are: *Banque Internationale du Benin* (owned by a syndicate of four Nigerian banks), Financial Bank (Lebanese and Swiss-owned), Ecobank, Bank of Africa, and Continental Bank. They all operate in major urban areas and have limited or no branches in rural areas. The National Savings Bank and Postal Checking Service have wider geographical outreach but limited deposit and loan services. Access to bank loans is restricted to a small number of large, established firms, mostly in commerce.

3. The Microfinance World in Benin

Microfinance in Benin remains the domain of credit unions, specific programs and projects from international donors, and non-government organizations (NGOs). The informal financial sector is dominated by *tontines* (ROSCAs), and individual moneykeepers and moneylenders with operations throughout the country.

The large number of credit unions that dominate the semi-formal system and microfinance in general in Benin are the result of a rehabilitation program started in 1990, after the collapse of the banking sector and of the CNCA. To restore the savings and loans system to its original mutualist principles, the government withdrew from the management of the cooperatives and replaced the old dirigiste system with credit unions or *caisses locales de credit agricole mutuel* (CLCAM). By December 1997, over 200,000 people were members of a credit union network associated with FECECAM (*Féderation des Caisses d'Epargne et de Crédit Mutuel*) and 82 CLCAMs operated all over the country.[9]

Another player in the microfinance world are the array of programs and projects of international donors aimed at providing financial services to microentrepreneurs and at reducing poverty in general. These programs include PADME (*Programme d'Appui au Développement des Micro Entreprises*), a World Bank initiative that is part of the structural adjustment package, and programs by AFRICARE, an American NGO. These programs are less formal and more heterogeneous than the credit union system, and they tend to reach poorer people.

The NGO microfinance sector is not large. About 20 local NGOs have been involved in providing microfinancial services to small entrepreneurs and the poor in Benin. Fewer than five NGOs specialize in microfinance, however, from this perspective, any apex mechanism would face

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9 See Chapter IV for a full discussion of FECECAM.

a very thin market in Benin. This poses serious challenges from limited opportunities to dilute fixed costs.

Most NGOs that exist in Benin today were created as a result of the economic liberalization and openness policies adopted in 1990. They have been mainly involved in agricultural production, literacy, health, nutrition, food security, law, and credit and savings services. Thus, most of the NGOs that provide microfinancial services do it as a secondary activity and lack the capacity as well as the expertise to efficiently deliver financial services. This raises formidable problems for any apex organization which attempted to operate on the basis of existing NGOs and it raises questions about the best way to promote the expansion of microfinance in Benin.

D. Concluding Comments

This introductory chapter provides a background on Benin which shows a country that is among the poorest in the world, with very limited outreach by the commercial banking system, and with slowly renewed confidence in the financial system after an earlier collapse. Demands for financial services by poor household-firms are not, however, satisfied by the formal financial system, and the banks would not be in a position to penetrate this market niche still for a long time. The semi-formal system, in turn, is dominated by credit unions, and it is able to achieve broader and deeper outreach and to provide financial services to clienteles that the banking sector would not serve.

Other players in the microfinance world, such as several international projects and programs as well as NGOs, are trying to share a market of at least 3 million rural people (60 percent of the population) and urban microentrepreneurs. Unfortunately, most NGOs show a crucial lack of expertise and of capacity to engage in successful financial intermediation.

It is within this environment that the apex organizations reviewed in the next two chapters are engaged in wholesaling funds and institutional strengthening activities at different levels to service the microfinance clientele as well as to strengthen the capacity of existing of NGOs and other microfinance organizations to provide sustainable services to this sector.

III

PADME Case Study

A. History And Evolution

The *Projet d'Appui au Développement des Micro Entreprises* (PADME) is a project originally funded by The World Bank to help the Government of Benin with a structural adjustment program that resulted in numerous government employees being laid off.[10] The project was aimed at mitigating the social costs of structural adjustment and at helping those who were laid off by providing financial support to former government employees who wanted to start microenterprise activities. The project was launched on September 1st, 1993, and it quickly expanded to include all types of microentrepreneurs.

The PADME project has gone through three phases:

(a) The *pilot phase* lasted for two years, until August 31, 1995. During this phase, PADME was managed with technical assistance from VITA, an American NGO.
(b) The *consolidation phase* covered the period from September 1995 to June 1996. During this phase the project was strengthened and expanded.
(c) The *institutionalization phase* started on July 1st, 1996 and was completed on December 31, 1997. This phase was expected to allow the program to firmly position itself in the microfinance world and to transform itself into a private not-for profit organization.

In effect, PADME acquired its new status of private voluntary organization on December 23, 1997, and it took the name *Association pour la Promotion et l'Appui aux Micro Entreprises*. This step in the right direction will lead the organization into a new phase.

B. Organizational Structure

1. Mission

The principal mission of PADME has been to contribute to the growth and development of the microenterprise sector in Benin by providing financial services to microentrepreneurs in urban and peri-urban Cotonou. More specifically, PADME provides:

(a) loans to existing and eligible microenterprises,

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10 Credit programs created for specific clientele to compensate them from negative impacts of policy reforms or for other exogenous events (*e.g.*, army demobilization), which cannot focus on the evaluation of creditworthiness, tend to face greater difficulties in enforcing credit contracts and tend to experience high arrears rates.

(b) loans to local NGOs to be disbursed to their own clientele in rural areas, and
(c) training and technical assistance to microentrepreneurs and local NGO staff members.

First, it is worth noting that PADME's mission was initially limited to providing credit in Cotonou, where its potential clientele (*i.e.*, laid off public employees) resided. It was not a bad idea, however, to expand the program to all urban microentrepreneurs. Established microentrepreneurs most likely have more experience and would make a better mix of clientele than former public employees newly converted to microentrepreneurs. This would reduce risks for the organization and would alleviate political pressures to disburse loans to applicants who are not creditworthy.

Second, PADME's mission included the provision of technical assistance to microentrepreneurs from the beginning, but not necessarily the provision of technical assistance to other microfinance organizations and their staff. The combination of technical assistance and credit, *per se*, already creates complications for any microfinance organization, and it stretches its limited managerial resources over a broader range of difficult and often incompatible activities.

Third, PADME's role as an apex mechanism that relies on NGOs to reach rural clients has been definitively an addition to the original mission that further stretches its organizational capabilities. The purpose of this case study is to find out how well PADME has handled this more complex and difficult mission.

PADME is, thus, both a microfinance organization that is engaged in financial activities at the first-tier as well as an apex organization that operates at the second-tier level. In general, the simultaneous operation of wholesaling and retailing activities creates major tensions for an apex organization. The potential conflicts between the apex and its clients are in part resolved for PADME by a division of labor that reserves the urban clientele for the first-tier operation of the organization and that leaves the rural clientele for the partner NGOs alone. Moreover, PADME started at the retailing level and only took its apex functions when the retailing activities were already operational.

Urban and peri-urban microentrepreneurs and local NGOs thus constitute PADME's principal clients. PADME does not offer any deposit services, and its loans are not targeted to any particular gender. Direct loans to microentrepreneurs, *i.e.*, PADME's first-tier financial activities, are restricted to the towns of Cotonou and Porto-Novo. The organization's main office is located in Cotonou. There is a branch in Porto-Novo, while two other branches are scheduled to open later in the towns of Bohicon and Parakou. Loans to local NGOs constitute PADME's second-tier, apex activities. These funds are aimed at the rural population.

2. Ownership and Governance Structure

PADME was funded by The World Bank through a loan to the Government of Benin. Up to December 1997, PADME was a public entity under the direct supervision of the Ministry of Planning of Benin. PADME was then a component of a larger government program set up to provide support to all enterprises in Benin called the *Projet d'Assistance aux Entreprises* (PAE) under the Ministry of Planning, Economic Restructuring, and Employment. A coordinator from the PAE and the Ministry of Planning oversaw PADME's activities. The project remained otherwise free of any government interference in hiring its personnel and carrying out its stated mission.

In general, government ownership, however, introduces serious threats of political intrusion that may jeopardize the achievement of sustainability. Transformation into a private voluntary organization was in part motivated by a desire to reduce this dependence. Since becoming a non-government organization, PADME has attempted to reorganize under a new structure to take case of the absence of well-defined owners which can create a threat of inadequate internal control for the organization. Although the transformation into an NGO takes away much of the threat of political intrusion, ownership rights are still attenuated and insufficient internal control may threaten its long-term sustainability.

PADME, as an association, is run by a General Assembly that includes microentrepreneurs, staff members, financial and other partner organizations, and the Government of Benin. The General Assembly is the supreme governing structure of the association, and it appoints the members of the Executive Committee. The General Manager is responsible for the day-to-day management of the association, and the supervision of the staff from four departments: credit, administration and finance, computing, and internal auditing (see organizational chart).

3. Management and Staff

PADME started with five employees in December of 1993. For the first two years, it benefited from the technical assistance of VITA, an American NGO, until August 1995, when the program was handed over to a Beninese staff. As of December 1997, there were 32 employees at PADME, including a Managing Director, an Assistant Manager in charge of the credit division, a Financial Manager in charge of the financial and administrative unit, a computer specialist in charge of the computing department, and an internal auditor responsible for the audit unit. See Figure 1 for the organization chart.

An incentive structure has been introduced at PADME to encourage efforts in screening, and monitoring clients and in enforcing loan contracts. Thus, loan officers (13 in total) responsible for reviewing the clients' loan applications, and approving and monitoring the loan up to repayment, receive a yearly bonus equal to 5 percent of the total loans granted and recovered by the agent. Basing the yearly bonus on loan recovery introduces incentives compatible with the growth and sustainability of the organization. In the future, PADME plans to tie the bonus with efforts made toward loan diversification as well.

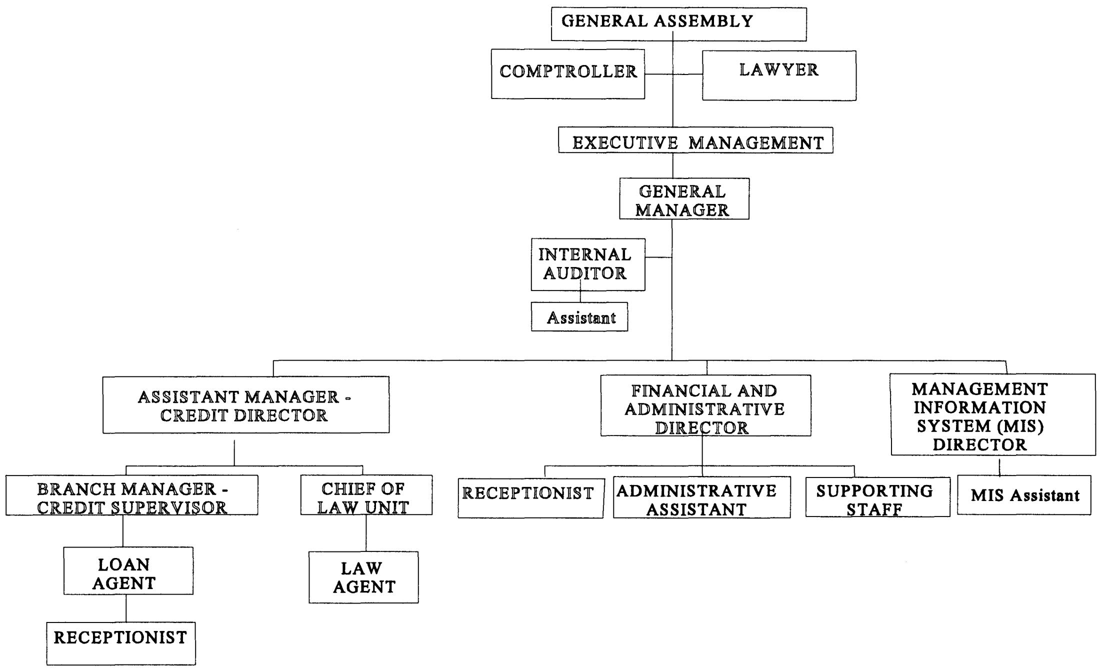

Figure 1. PADME Organizational Chart

C. Policies And Operations at the First-Tier Level

1. Selection Criteria

The criteria for microentrepreneurs to be eligible for a loan from PADME (target group) are the following:

(a) to have a business enterprise that is already in operation,
(b) that the enterprise be located in the urban or peri-urban area where PADME operates, and
(c) to be a citizen of Benin.

Most microenterprises that meet these criteria hire two to four employees and are involved in artisanal activities such as tailoring, wood and metal work, sale of food products, and other trading activities. A few of PADME's clients have more than 10 employees. The selection criteria did not purposely include a size limit for the microenterprise because this is not a good criterion to define microenterprises in Benin. PADME considered instead a broader definition based on financial requirements: to be considered a microenterprise and thus be eligible for PADME loans, any enterprise's financing needs should not exceed CFAF 2 million (US$ 4,000), the largest loan amount possible under the program. It is almost impossible for an enterprise with these characteristics to have access to bank loans in Benin.

2. Loan Processing

Upon reception of a loan application, a credit officer from PADME makes a field visit to verify all information related to the potential borrower and its business activities. Afterwards, a credit committee reviews the application for approval.

Before the loan is granted, any approved borrower must attend a workshop on microenterprise management. The session, which lasts approximately four hours, includes elements of business marketing, accounting, and loan management. The terms and conditions of PADME's loan contract are also explained at the meeting. Entrepreneurs are asked to keep a book of all expenses and revenues related to their business and to keep them separate from the household's account. Entrepreneurs are, for example, advised to pay themselves a salary that will be used for household expenses instead of using the proceeds from the business for this purpose.

PADME believes that the workshop has to be attended every time the entrepreneur receives a loan, because the meeting's recommendations help the microentrepreneur avoid management mistakes capable of bankrupting the business. Thus, the aim of the workshop is to alleviate failure risks among microentrepreneurs by providing them with useful information and advice about their business and by having former borrowers tell their success stories to new clients. The workshop starts with testimonies from other entrepreneurs on how their business benefited from the advice given upon receiving their former loans. The agenda also includes several other topics. First, the realities of the business enterprise focusses on the need for the entrepreneur to identify a business that offers goods and services that are in demand. Second, the fundamental elements of a good management discusses marketing, and good accounting. It discusses ways for entrepreneurs to market their products more effectively by improving their appearance, the packaging, where they are sold, how, where, when, and the power of advertisement. Accounting insists on minimum bookkeeping and separation of the business from household accounts. Third, loan management reviews the terms of contract of the borrower with PADME. Fourth, loan monitoring is also discussed and warns potential borrowers on follow up by PADME of their activities and use of the advices provided by the workshop to ensure good repayment of the loan. For PADME, the workshop is an important element of its risk management strategy. However, entrepreneurs have complained about the fact that they are subjected to the workshop every single time they borrow money and they do not feel that this is necessary. In fact with an increase in the number of borrowers, PADME would find it increasingly difficult to accommodate everyone on its premises for the course.

The number of participants at the workshops has been steadily increasing over the years as the number of individual borrowers also has grown. From 32 sessions attended by 445 participants in 1994, PADME was offering 242 sessions with 7,186 participants in September of 1997. At the time of the study, sessions were offered twice a week, *i.e.*, every Tuesday and Friday when loans were being granted.

3. Loan Granting, Contract Design, and Contract Enforcement

Loans are granted for a maximum term of one year (12 months), and repayments are due monthly, with a grace period of at most two months when asked. The maximum loan amount is CFAF 2 million (US $ 4,000), while the minimum is CFAF 20,000 (US $ 40). The interest rate is 2 percent per month on a declining balance, yielding an annual nominal rate of 13.5 percent. In 1996, the annual effective interest rate on loans was 2 percent. Collateral is always required and it varies from physical assets (land, equipment), habitat permit, cosigner, to a group liability.

PADME does not offer any deposit services except for the 10 percent forced savings required of every borrower and used as a guarantee fund. Those who cannot provide sufficient guaranty are required to deposit an additional 10 percent of the loan amount. Loan applications include a fee of 1 percent of the loan amount. Delinquent loans carry a penalty of 2 percent of the late amount in addition to a CFAF 3,000 (US $ 6) fee for each late payment. Loan disbursements take place twice a week, every Tuesday and Friday, and repayments take place whenever due. All loan operations (disbursement and repayments) are handled by Financial Bank, PADME's long time commercial bank partner.

The partnership of PADME with Financial Bank deserves more attention, as linkages to a formal financial institution may in general represent an alternative to apex organizations. From the very beginning, Financial Bank has been willing to provide PADME with special windows at the bank. The operations of PADME customers at Financial Bank represent one-third of all the Bank's cash transactions. Why has Financial Bank agree to such a partnership? Managers at the bank tell us that the partnership is part of the bank's social agenda, which includes involvement microfinance. In effect, to fulfill its social agenda, Financial Bank has been using its own resources to make mortgage loans to private sector employees through their unions. The bank has also financed some agricultural equipment loans.

The partnership with PADME allows the bank to get familiar with microentrepreneurs who are potential clients, whom it hopes it will graduate to its bank operations. The bank is thus engaged in a downscaling exercise that minimizes its costs. There is only one agent assigned to the PADME window at the bank, although more windows will be created soon to accommodate the increasing number of PADME's clients. All loan application reviews, loan granting, and monitoring are implemented by PADME's credit officers. They do not involve any staff from Financial Bank. There is, however, a manager at the bank in charge of relations with PADME, who oversees all the operations, registers all the complains about the quality of services, and takes the necessary steps to make the adjustments required.

For PADME, Financial Bank allows the program to also eliminate some costs involved with setting up a bank including buying and protecting the safes, hiring bank tellers, and incurring the added administrative costs. Allowing the borrowers to use Financial bank facilities for their operations is also reassuring for PADME's clients. In fact, it could be an additional blessing when PADME starts mobilizing deposits, as potential savers would be concerned with the safety of their money. It would be interesting to see PADME and Financial Bank develop their relationship a bit more and to what extent each party benefits from what the other has to offer. Financial Bank should help PADME minimize the costs of mobilizing deposits as this appear to be the biggest next challenge for the organization.

Loan Monitoring

Loan monitoring are enforced by PADME loan officers who are assigned specific zones and clients. Loan monitoring entails regular visits to the borrower's place of business, keeping abreast of the level of activity for which the loan was granted and collecting additional information by talking to friends and neighbors. The loan officer also checks the books that entrepreneurs are supposed to maintain to facilitate their business management. PADME believes that "a business without any accounting is like a car driving in the dark without any lights". Teaching microentrepreneurs to keep written records is a way for PADME to help them move from the informal to the formal world, says management.

3. Auditing, MIS and Accounting Systems

The management information system (MIS) at PADME was developed with the assistance of VITA and is fully computerized. Key reports generated by the MIS are produced at the headquarter in Cotonou. Internal and external accounting are provided by the technical staff at PADME and outside auditors. At the time of the field visit, PADME was in the process of updating its computer software to better handle its loan operations. In fact, PADME had outgrown the management package inherited from VITA which no longer responded to the needs of the organization and the nature of the operations being undertaken.

D. Policies and Operations at the Second-tier Level

1. PADME and AFRICARE

AFRICARE is a private, not-for profit American organization with headquarters in Washington D.C. AFRICARE was created in 1971 and assists families and communities throughout Africa. During its first years, AFRICARE concentrated on helping to alleviate the effects of severe drought in West Africa. By the mid-1970s, Africare had shifted its emphasis to development programs in the areas of agriculture, water, environmental protection and health. Today, Africare works in 28 African countries and maintain offices in 25 countries including Benin.

The mission of Africare-Benin was to help indigenous non-governmental organizations (NGOs) to develop more effective, accountable and participatory structures. Africare started its operations in Benin in 1993 and in May 1994, it signed an accord with USAID that granted the organization US$ 4.6 million to launch Benin Indigenous NGO Strengthening (BINGOS) program. The purpose of BINGOS was to strengthen the capacity of Beninese local NGOs so they can be effective development tools. BINGOS had several components:

- **Institutional Support Grants** to help NGOs improve their operations and become more professional. Grant money can be used for credit activities, as well as to buy equipment, and pay employees salaries or any other operational expense.
- **Micro-Projects Grants** allowed NGOs to finance their regular activities and become more proficient at them.
- **Umbrella Grants** were reserved for American NGOs to help them reinforce their ties with local Beninese NGOs. The first grant was given to VITA (Volunteers in Technical Assistance) and allowed PADME[11] to start its apex activities of providing technical assistance in credit methodology and wholesale loans to local NGOs.

After receiving its first funds from Africare, PADME put in place a strategy whereby it would provide second-tier loans to local Beninese NGOs who met the criteria that it had defined for its apex activities.

2. Criteria for PADME Apex loans

The selection criteria for NGOs to be eligible for a loan and become a PADME partner are:

- Be legally registered in the country as a local NGO
- Have a microfinance activity

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11 PADME was being run by VITA at that time.

- Operate in rural areas
- Be able to offer a reliable guarantee or collateral for the loan

The criteria for NGOs were not very strict and PADME did not restrict itself to NGOs specializing in microfinance. In fact, PADME did not have the luxury of such a choice as almost all NGOs in the country engaged in microfinance as a secondary, complementary activity.

3. Loan Processing, Granting, and Monitoring

Loan Processing

Eligible NGOs submit loan application to PADME which includes the list of all members requesting a loan, the individual loan amounts as well as the total amount requested. Loan applications include a fee of 1 percent of the loan amount. A credit officer at PADME makes a field visit to the NGO to verify that the members really exist and also check other relevant information. The NGO is the responsible party for the loan repayment to PADME. NGO final borrowers are not required to attend the workshop on microenterprise management after the credit committee approves the global loan. However, all NGO staff are given courses on basic loan management, appraisal of clients needs, and loan monitoring. Three NGO partners benefited also of an additional course in accounting and more advanced loan management techniques.

NGOs which are granted a loan are required to have an accounting system, and to report to PADME on their loan activities. However, no financial statement, balance sheet or income statement is required to be sent to PADME. That is because most NGOs do not have the expertise to draw such statements.

Loan Granting, Contract Design, Contract enforcement

Apex loans to NGOs do not exceed 18 months. That is six months longer than the maximum term for a first-tier loan. Repayments are expected monthly with a grace period of two months. The maximum loan amount is CFAF 2 million (US $ 4,000) while the minimum is CFAF 20,000 (US $ 40). The interest rate is 1 percent per month on a declining balance so that the NGO can grant loans to their members at 2 percent per month, the same rate that applies to PADME's first-tier clients. A collateral is always required from the NGO and it may vary from the organization's asset (land, equipment), to the personal assets of the NGO board members. Delinquent loans carry a penalty of 2 percent of the late amount in addition to a CFAF 3,000 (US $ 6) fee for each late payment. Although the loan contract is between PADME and the NGO, loan officers at PADME still insist on being present during loan disbursement to NGO members. In 1996, the only year PADME made apex loans, the organizations made second-tier loans to seven local NGOs ranging from CFAF 600,000 (US $ 1,200) to CFAF 3 million (US $ 6,000) for 18 months.

Loan Monitoring

The monitoring of the NGO by PADME loan officers stops after the officer witnesses the loan disbursement to the final borrowers. Individual loan monitoring is left to the NGO staff. The only other contacts between PADME and the NGO happens when there is a problem with loan repayment.

By leaving individual loan monitoring of NGO members to the NGO staff, PADME is assuming that the NGO is capable of assuming such a task. PADME also feels confident that it had double-checked the credentials of the final borrowers. The problem comes from the fact that partner NGOs have almost no experience in microfinance and loan monitoring except from what PADME taught them in a few courses. PADME is, thus, taking a big risk by trusting them with loan monitoring but the apex does not have the human resources to follow these loans itself. There is, thus, a real dilemma in PADME's dealings with NGOs. On the one hand it wants to service more rural and poorer people, on the other hand, it is taking a lot of risk to do that. Fortunately for PADME, the loan technology it was using with its partner NGOs worked fairly well and default was kept at a minimum.

E. Performance of PADME at the First-tier Level

1. Growth and Expansion

PADME experienced a rapid growth from 1994, when it started, to 1997 when it was about to achieve its institutionalization process. The number of loans granted increased from 437 in 1994 to 2817 by September 1997, representing a 545 percent growth. The amount of loan granted registered a similar growth over the same three-year period (Table 1). The organization has also opened a second office in Cotonou and expanded its first-tier operations to the town of Porto-Novo. In the near future, PADME plans to extend its activities to Bohicon and Parakou, two other major towns in Benin.

2. Outreach

Breadth of Outreach

By the end of September 1997, PADME had granted 7145 loans to 4,599 clients. The total loan amount was CFAF 2,8 billion (US$ 5,6 million) (see Table 1). PADME increased its loan granting capacity nearly 4 times from 429 loans in 1994 to 1547 loans by September 1997. The number of repeat borrowers represented 82 percent of all new loans granted in 1997 (Table 1). PADME approved 93 percent of all loan applications in 1997 of which 12 percent where group loans to 998 women borrowers. Each group comprises three women microentrepreneurs who know each other well. In total 75 percent of PADME's clients were women. With its direct loan activities, PADME estimates that it is reaching 3 percent of the microenterprise clientele of 71,000 in Cotonou and 24,000 in Porto-Novo, in places where it had virtually no competition. This rather limited outreach makes one assume that there is a very large demand for microenterprise loans that is still unmet at this time.

Depth of Outreach

The average loan amount for direct loans to microentrepreneurs in Cotonou was CFAF 360,000 (US$ 720) for first time borrowers and CFAF 700,000 (US$ 1,400) for repeat borrowers. In Porto-Novo, it was CFAF 250,000 (US$ 500) and CFAF 400,000 (US$ 800) respectively. In general, a second loan cannot be more than double the first loan. The average loan term was 10 months. Obviously, PADME loans were not being granted to the poorest of the poor. Borrowers were microentrepreneurs living in urban areas, and who had higher financial needs than the typical rural artisan.

Quality of Services Provided

Most microentrepreneurs who are PADME's clients cannot access commercial bank loans and interviews with borrowers revealed that they highly value PADME loans. Close to half PADME's clients were repeat borrowers in 1997 and only 2 percent of borrowers left the program since its inception in 1994. However, borrowers expressed the wish to have access to larger size loans in the future. There is good reason to believe that the loyalty showed by PADME's clients so far would also translate in their willingness to save with the organization if it were to engage in deposits mobilization.

Repayment Performance

PADME had a total loan outstanding amount of CFAF 651.5 million (US$ 1.3 million) in 1996 of which less than 1 percent (FCFA 5.1 million, *i.e.*, US$ 10,200) was in arrears. By September 1997, repayment at PADME stood at 99 percent. This high repayment rate can be explained by the thorough analysis done by PADME before granting a loan, and the sustained monitoring that takes place during the life of the loan.

F. Performance of PADME at the Second-tier Level

1. Outreach

Apex loans that were granted to seven local NGOs are believed to have reached more than 500 microentrepreneurs in rural areas. The total amount received from Africare in 1995 and granted to NGOs was CFAF 19.7 million (US$ 39,400) from Africare BINGOS program. USAID/Africare funding to PADME was made possible while the project was being run by VITA but the funding and consequently the apex activities were put on hold after VITA turned the project over to local ownership and the government of Benin. Apex loans ranged from a minimum of CFAF 600,000 (US$1200) to a maximum of CFAF 3 million (US$ 6,000). The average apex loan was CFAF 1,7 million (US$ 3,400), carried a 1 percent monthly interest rate, and was granted for a maximum of 18 months. The average NGO membership was 150 people most of them women.

Apex loans to local NGOs have undoubtedly reached more of the poorest in Benin who are the bulk of the rural population including women. In fact, most partner NGOs had at least 90 percent of their clients who were women. A field visit to SURVIE, one of PADME's partner revealed that the NGO was created in 1989 and focused on women's health and nutrition, family planning, water and sanitation, democracy and women's rights in additions to microfinance. SURVIE's started its microfinance activities in 1994[12] in the Zou region where its headquarters are located. In 1996, SURVIE received a loan amount of CFAF 3 million (US$ 6,000) from PADME for 12 months to which the NGO added CFAF 1 million (US$ 2,000) of its own funds to grant CFAF 100,000 (US$ 200) to 40 groups of five women each. In total 200 women received each CFAF 20,000 (US$ 40)[13] for 10 months at 15 percent annual interest rate. The repayment rate was 100 percent. Among the 20 staff members at SURVIE, only one person had any real competency in microfinance. Thus, PADME had to provide some training to eight staff members responsible for loan monitoring. The NGO also participated in the course offered by CGAP in Cotonou in September 1997 on loan delinquency and interest rate setting and was part of the BINGOS program.

Apex clients of PADME, *i.e.*, NGOs highly value the training and technical assistance provided by PADME. That allows them to reinforce the capacity they admit they lack.

Apex loan recovery was 95 percent as of December 1997 with a defaulting NGO that has repaid only 51 percent of its loan amount.

2. Sustainability

Operational Self-Sufficiency

The most basic indicator of operational efficiency examines the organization's operating costs as a percentage of its average loan portfolio. This ratio reveals how much it costs the organization to lend one CFAF. High ratios suggest administrative inefficiency, small loan portfolio or a combination of both. In the case of PADME, operational expenses were not very high, averaging 32 percent from 1994 to 1997 (Table 2). They have, in fact, been decreasing over the years, and in 1996, CFAF 0.326 was spent for every CFAF 1 earned. Operaring costs as a percent of average loan portfolio were even lower in 1997 with a ratio of 26.5 percent, a sign of a rather efficient operation at PADME.

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12 SURVIE started its microfinance activities in 1994 after receiving funding from Catholic Relief Service (CRS), an American NGO, for a village banking program.

13 That represented 9.6 percent of GDP per capita of US$ 418.

The measures for PADME's operational self-sufficiency are also found in Table 2. The ratios showed an average of 152 percent over the four-year period indicating that PADME was able to more than adequately cover its operational costs by its overall revenues. For every CFAF 1 of expenses in 1997, PADME generated CFAF 1.4 in income.

Aggregate profitability is typically measured in terms of return on assets (ROA) and return on equity (ROE). The higher the return, the better. After experiencing an increase from 1994 to 1995, both ratios decreased from 1995 to 1996 but were in the rise again in 1997 and settled at 9.2 percent for ROA and ROE was 10.7 percent in 1997 (Table 2). These ratios indicate net income of CFAF 0.09 per CFAF 1 of assets owned during the year 1997 and net income of CFAF 0.11 per CFAF 1 of equity owned during the period which are rather low.

Financial Self-Sufficiency and SDI Measures for PADME

The performance and sustainability of a microfinance organization such as PADME depends on its financial self-sufficiency, *i.e.*, its ability to generate sufficient income not only to cover the operational costs of the organization but the financial costs as well. Performing a cost-structure analysis is the most comprehensive approach to analyzing the financial performance of an organization and involves the calculation of the net operating margin. Every year, the net operating margin for PADME remained positive although decreasing and was 4.1 percent in 1997 (Table 2). A positive net operating margin reveals that PADME is covering actual costs with income derived from its loan operations. PADME is, nonetheless, a highly subsided organization whose operating and loan funds are grant money from international donors.

To find out just how dependent PADME is on outside funds, it is useful to calculate the Subsidy Dependence Index (SDI). The objective of the SDI is to provide a comprehensive method of assessing and measuring the overall financial costs involved in operating a microfinance organization (MFO) and quantifying its subsidy dependence. The SDI is a ratio that measures the percentage increase in the average on-lending interest rate required to compensate an MFO for the elimination of subsidies in a given year while keeping its return on equity equal to the approximate non concessional borrowing cost. The index assumes, for simplicity, that an increase in the on-lending interest rate is the only change made to compensate for loss of subsidy. An SDI of zero assumes that a MFO achieved full self-sustainability. An SDI of 100 percent indicates that a doubling of the average on-lending interest rate is required if subsidies are to be eliminated. Similarly, an SDI of 200 percent indicates that a threefold increase in the on-lending interest rate is required to compensate for the subsidy elimination. (Gurgand, Pederson, and Yaron, 1994).

The available information from the published financial statements over a four-year period allow us to calculate only two SDI, *i.e.*, for the years 1995 to 1997. The SDI has shown a decrease from 1996 to 1997 and the latest figure obtained indicates that in 1997, an increase of 27.4 percent in the on-lending interest rate or a 7 percentage points increase[14] would be required to eliminate the

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[14] 24*0.274 = 7

subsidy received by PADME (see Annex). That is, PADME would have to increase their interest rate on loans from 24 percent to 30 percent to eliminate all subsidies. That is quite a reasonable goal which in addition will let PADME still comply with the PARMEC law regulation.

G. Challenges and Potential for PADME

1. Problems Faced and Lessons Learned

Among the problems PADME was confronted with on a daily basis are: the lack of capacity among NGOs, the high illiteracy rate among the targeted population, a difficult legal environment for contract enforcement, the absence of statistics on the size of microenterprise sector. For its first-tier activities, the organization intents to diversify its portfolio away from trading activities which comprises 80 percent of the actual loan portfolio.

PADME has also learned a few lessons from its short-lived apex experience with NGOs. The organization has developed a better and stricter selection criteria for its future apex operations. Thus, PADME intends to ask NGOs for more reliable collateral, and to increase the loan term beyond the now 18 months period.

2. Role and Challenges for PADME

PADME's growth has been impressive since its creation and the organization has built a solid reputation as a viable microfinance organization. PADME's future as a microfinance retail organization seems bright given its high repayment rate. The organization has also already achieved operational sustainability although it is still dependent on donor subsidies. In order to fulfill its wish of expanding its operations to the rest of the country, PADME estimates that it will need continued donor support. If some funds can be accumulated from deposits mobilization, all the additional funds would not have to come from donors alone. However, mobilizing savings is a very costly venture and may not be very profitable under the new PARMEC law which places limits on interest rates. That issue needs to be examined further. In any case, PADME's ability to leverage funds from outside may be helped by its remarkable performance thus far, and its change of status into a private organization.

As an apex organization, PADME's experience is limited and has been short-lived due to the lack of donor funds and its status as a public entity at the time. It has played only a limited role in institution building of partner NGOs. It played no role as a supervisor and or regulator of other MFOs and NGOs except for a monitoring role over partner NGOs. Thus, PADME's success as an apex organization is difficult to assess given its limitation in time and scale. The contribution to the development of sustainable capacity at the retail level has been very minimum. First, PADME was not equipped to deal with institution building at a grand scale, and second, it did not interact enough with the NGOs to make any difference.

The biggest challenge for PADME remains its ability to undertake more apex activities in the future. The biggest constraint will be the limited availability of human capital which is rightfully concentrated at the first-tier level where it is most profitable to the microfinance industry in Benin.

Table 1: Loan Granting at PADME over the Years

	1994	**1995**	**1996**	**1997***	**Total**
Number of new loans	429	1,070	1,553	1,547	**4,599**
Number of repeat loans	8	304	964	1,270	**2,546**
Total number of loans granted	437	1,374	2,517	2,817	**7,145**
Total amount of loan disbursed in CFAF	**178,132,500**	**544,620,000**	**934,920,000**	**1,142,950,000**	**2,800,622,500**

Source: PADME Report
* As of September 31, 1997

Table 2. **Measuring PADME's Operational Efficiency**

	1994	1995	1996	1997
Financial expenses (CFAF)	0	0	0	0
Operating Expenses (CFAF)[1]	31,570,595	51,858,825	148,341,630	221,786,302
Total Expenses (CFAF)	31,570,595	51,858,825	148,341,630	224,458,129
Financial income [2]	41,056,358	112,302,675	175,181,921	265,783,875
Operating income	41,056,358	112,302,675	184,364,550	302,285,768
Total Income (CFAF)	46,607,607	118,710,796	202,391,138	320,547,351
Net Income (CFAF)	15,037,012	66,851,971	54,049,508	96,089,222
Financial Assets	160,376,854	396,061,386	751,695,511	1,233,886,191
Avg.Total Assets	87,197,928	298,943,617	606,954,394	1,044,945,180
Avg. Total Equity	84,348,007	273,722,581	531,053,848	898,816,492
Total Liabilities	5,699,842	44,742,230	103,058,862	185,198,514
Avg. Outstanding portfolio (CFAF)	68,090,936	242,806,987	454,393,007	838,502,652
Operating Expenses/ Avg.Outstanding Portfolio	46.4%	21.4%	32.6%	26.5%
Operational Self-sufficiency[3]	130.0%	216.6%	124.3%	136.3%
ROA[4]	17.2%	22.4%	8.9%	9.2%
ROE[5]	17.8%	24.4%	10.2%	10.7%
Gross Financial Margin[6]	47.1%	37.6%	28.9%	25.4%
Net Operating margin[7]	10.9%	20.2%	4.4%	4.2%

Source: PADME report

Notes: [1] : Operating expenses are equal to personnel expenses, administrative expenses, including depreciation of fixed assets. They do not include financial costs and loan loss provisions.

[2] : Financial income = income from interest and loan fees

[3] : Operational self-sufficiency = Financial income /Financial + Operating Costs + Loan loss provision

[4] : ROA = Net income/Avg. Total assets

[5] : ROE = Net income/Avg. Total equity

[6] : Gross Financial Margin = (Financial income - Financial Costs) / Avg. Total assets

[7] : Net Operating Margin = Gross Financial margin - Operating costs / Avg. Total Assets

ANNEX 1. Consolidated Balance Sheet Data for PADME, 1994-97 (CFAF)

	12-31-94	12-31-95	12-31-96	12-31-97
ASSETS				
Cash & due from banks	21,796,542	44,054,404	172,542,762	5,359,099
Loans	136,181,871	349,432,103	559,353,910	1,117,651,393
Performing assets	**157,978,413**	**393,486,507**	**731,896,672**	**1,123,010,492**
Other creditors	2,398,441	2,574,879	3,324,622	38,999,863
Misc. Receivables	0	0	16,474,217	71,875,836
Fixed Assets (Building and Equipment)	14,019,001	27,429,993	38,721,897	65,586,760
Other Assets	**16,417,442**	**30,004,872**	**58,520,736**	**176,462,459**
TOTAL ASSETS	**174,395,855**	**423,491,379**	**790,417,408**	**1,299,472,951**
LIABILITIES & OWNER'S EQUITY				
Accounts payable	0	0	0	0
Deposits for guarantee fund	5,699,842	43,340,757	90,004,423	168,458,661
Other liabilities	0	1,401,473	13,054,439	16,739,853
Total Liabilities	**5,699,842**	**44,742,230**	**103,058,862**	**185,198,514**
Advances on loan subsidy fund	140,000,000	270,295,773	509,563,773	822,749,773
Investment Subsidy fund	13,659,001	26,564,393	37,856,282	59,496,951
Retained Earnings	0	15,037,012	81,888,983	135,938,491
Year-end Net Income	15,037,012	66,851,971	54,049,508	96,089,222
Total Equity	**168,696,013**	**378,749,149**	**683,358,546**	**1,114,274,437**
TOTAL LIABILITIES & OWNER'S EQUITY	**174,395,855**	**423,491,379**	**786,417,408**	**1,299,472,951**

ANNEX 2. Consolidated Income Statement for PADME, 1994-97 (CFAF)

	12-31-94	12-31-95	12-31-96	12-31-97
INCOME				
Loan Interest Income	8,927,059	49,525,651	94,677,566	204,056,132
Other Income[1]	32,129,299	62,777,024	80,504,355	61,727,743
Change in depreciation	0	0	9,182,629	7,872,881
Subsidies	5,551,249	6,408,121	18,026,588	18,261,583
Misc. income	0	0	0	28,629,012
TOTAL INCOME	**46,607,607**	**118,710,796**	**202,391,138**	**320,547,351**
EXPENSES				
Interest expenses	0	0	0	2,671,827
General and administrative expenses	8,057,657	10,427,713	21,583,716	30,338,255
Other adm. Expenses	4,759,918	3,987,183	8,447,224	16,272,341
Taxes	24,550	225	111,300	172,250
Salary Expense	11,437,500	23,592,675	61,771,008	99,931,923
Maintenance Expense	0	0	16,526,982	35,020,555
Depreciation	7,290,970	13,851,029	26,043,574	39,298,627
Misc. Expense	0	0	13,857,826	752,351
TOTAL EXPENSES	**31,570,595**	**51,858,825**	**148,341,630**	**224,458,129**
NET INCOME	**15,037,012**	**66,851,971**	**54,049,508**	**96,089,222**

Note: [1]: Other income includes loan application and processing fees, and income on clients' deposits

ANNEX 3. Subsidy Dependence Index (SDI)

Computation of the SDI:

$$SDI = \frac{S}{LP * i}$$

where:

$$S = A(m - c) + [(E * m) - p] + K$$

and:

S = Annual subsidy received by the MFO;
A = MFO concessional borrowed funds outstanding (annual average);
m = Interest rate the MFO would be assumed to pay for borrowed funds if access to borrowed concessional funds were eliminated;
c = Weighted average annual concessional rate of interest actually paid by the MFO on its average annual concessional borrowed funds outstanding;
E = Average annual equity;
P = Reported annual profit (before tax) (adjusted, when necessary, for loan loss provisions, inflation, etc.);
K = The sum of all other annual subsidies received by the MFO (such as partial or complete coverage of the MFO's operational costs by the state);
LP= Average annual outstanding loan portfolio of the MFO;
i = Weighted average on-lending interest rate earned on the loan portfolio of the MFO.

Table 1. Calculating SDI over the years for PADME[1]

Item	**1995**	**1996**	**1997**
Cncessional borrowing = A[2]	0	0	0
Concessional rate of interest paid by MFO=c	0.0%	0.0%	0.0%
Market lending rate = m	16.75%	16.75%	16.75%
Annual average equity = E	273,722,581	531,053,848	898,816,492
Subsidy on equity = (E*m)	45,848,532	88,951,520	150,551,762
Profits = P (losses)	66,851,971	54,049,508	96,089,222
Grants and Benefits = K[3]	6,408,121	18,026,588	18,261,583
Total subsidy = S	-14,595,318	52,928,600	72,724,123
Revenue from lending[4] = LP*i	112,302,675	175,181,921	265,783,875
SDI	**-13.0%**	**30.2%**	**27.4%**

Source: PADME published financial statements

Note: 1: All absolute amounts are in CFAF

2: No concessional borrowing took place

3: Reported figures in the income statement

4: Revenue includes loan interest income, penalty interest income, and revenues from loan application fees.

CHAPTER 4. CASE STUDY: FECECAM

I. HISTORY AND EVOLUTION OF THE APEX

When the government of Benin nationalized the banks in the 1970s, the Caisse Nationale de Crédit Agricole (CNCA), was one of the public development bank set up in 1975 to disburse long-term and agricultural loans to the population. By 1977, several local and regional credit unions, *i.e., Caisses Locales de Crédit Agricole Mutuel* (CLCAMs), and *Caisses Régionales de Crédit Agricole Mutuel* (CRCLCAMs) were created and placed under the supervision of CNCA which acted as the national federation of this network of credit unions. However, the CNCA adopted a top-down approach in its dealing with its member credit unions, excluding elected officials from management and decision making. By 1988, amidst a general collapse of the banking system in Benin, the CNCA was paralyzed by severe liquidity and mismanagement problems and went bankrupt. That situation resulted in the assets of all six CRCAM being frozen, and created a liquidity crisis for all 99 CLCAMs in existence at that time. The CNCA was liquidated in 1989, but member CLCAMs continued to operate and collect member deposits during the crisis. Encouraged by the will of shareholders to salvage their institution, the government of Benin initiated a two-phase rehabilitation program with the financial support of international donors such as the French Cooperation, the Swiss Cooperation, and the World Bank. Phase one lasted three years (1990-1993) and ended with the creation in 1993 of the *Fédération des Caisses d'Épargne et de Crédit Mutuel* (FECECAM), an apex institution which inherited 42 CLCAMs, CFAF 17 million (US $ 68,000)[15] in deposits, and CFAF 12 million (US $ 48,000) in loans. Membership in the CLCAMs almost doubled during the restructuring from 20,800 in September 1989 to 40,000 in June 1992. Deposits increased 11 percent over the same period from CFAF 2.4 billion (US $ 9.6 million) to CFAF 3.1 billion (US $ 12.4 million) (Fruman, 1997).

Phase two of the restructuring program (1994-1998) is underway and FECECAM oversees today a network of seven *Unions Régionales de Crédit Agricole Mutuel* (URCLCAMs), and 82 CLCAMs. By September 1997, there were 210,651 shareholders, CFAF 17.7 billion (US $ 35.4 million) in deposits, and CFAF 12.1 billion (US $ 24.2 million) in loans outstanding to 69,359 borrowers.

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15 US $ 1 = CFAF 250 until the devaluation of the currency in January 1994. US $ 1 = CFAF 500 thereafter.

II. STRUCTURE OF THE ORGANIZATION

1. Mission

The principal mission of FECECAM is to coordinate the activities of its members, i.e., the CLCAMs and URCLCAMs, define the general policies of the network, provides technical assistance to network members, and manage excess liquidity generated by the network. One of FECECAM's ultimate objective is to become a more effective Central Finance Facility (CFF) by engaging more directly in financial intermediation between surplus and deficit units and becoming an effective lender of last resort. Another crucial role for FECECAM is to see that the main objectives of the restructuring are met, *i.e.*, bring the network to financial sustainability, and create an effective structure, the Technical Secretariat of the Federation (TSF) to supply technical support to member CLCAMs and URCLCAMs.

2. Organizational Design

Until recently, there were three levels of operation and management in the credit union network: the CLCAMs, URCLCAMs, and the Federation or FECECAM. However, starting in 1996, a fourth level has been added to the organization with the creation of the *Caisses Villageoises d'Epargne et de Crédit* (CVECs) located in villages (see organizational chart).

The *Caisses Villageoises d'Epargne et de Crédit* (CVECs)

The first CVECs were created in 1994 in the Ouémé region is an effort to reach a greater number of the rural population by being closest to the potential clientele. By September 1997, there were 28 CVECs in as many villages in three out of seven Beninese regions. CVECs are run as an integral part of the CLCAM to which they depend. In fact, the same elected officials at the CLCAMs serve as management committee members at the CVECs and are responsible for loan granting. Although the CVECs mobilize their own savings, they benefit from the CLCAM resources for loans to their members. The objective of the CVEC is to grow to become a CLCAM in the future.

The *Caisses Locales de Crédit Agricole Mutuel* (CLCAMs)

The CLCAMs are located primarily in rural towns, communes, and sub-préfectures. CLCAMs and are the pilar of the credit union network. They collect savings and grant loans to their members only. As of September 1997, there were 82 CLCAMs in as many towns all over Benin. Each CLCAM covers 20 to 30 villages. CLCAMs are organized around a general assembly of shareholders held once a year. At that time, members are elected to serve in the board of directors and a supervisory board.

Membership: Originally created to provide agricultural loans to farmers only, today CLCAMs have outgrown their original mission and membership is a diverse mix that includes individuals especially microentrepreneurs as well as groups who reside or work in a community served by the CLCAM. To become a member/shareholder, an individual is required to pay CFAF 200 (US $ 0.40) in membership fee, and buy at least one share at CFAF 1,000 (US $ 2). A minimum of CFAF 5,000 (US $ 10) that buys five shares is required for a group. Opening an account requires a deposit of CFAF 5,000 (US $ 10) and three identification photos. Members can receive a loan if they save regularly, file a loan application, and are creditworthy. CLCAMs do not accept civil servants, and other private sector employees and organizations including NGOs as shareholders but they are allowed to open deposit accounts with the credit union. Thus, they can save but are not eligible for loans.

Deposit Services: CLCAMs have a savings-first philosophy whereby deposits mobilized from members are used to grant loans to shareholders. There are three types of deposits accounts and they all require a minimum of CFAF 5,000 (US $ 10) deposit:

- Current accounts earn no interest and are reserved for NGOs and other enterprises
- Passbook accounts earn 3 percent annual interest rate
- Term deposit accounts earn 4 percent annual interest rate, and 4.5 percent for longer term, *i.e.* greater than two years, deposit accounts.

It is worth noting that commercial banks were paying 3.5 to 4.5 percent annual interest rates on deposit accounts in 1997. Thus, CLCAMs were paying less than the prevailing commercial rates, and in fact negative real rates of interest in an environment where the average inflation rate was 13 percent except in 1994 when inflation reached more than 30 percent due to the devaluation of the currency. CLCAMs could allow themselves to pay those rates because they had no competition in rural areas where they are located. Even the two CLCAMs that opened in urban areas in Cotonou in 1994 attracted mainly microentrepreneurs and the general clientele that banks would not serve.

Loan Services: CLCAMs offer several loan products to eligible members. They are:

- *Tout Petit Crédit aux Femmes (TPCF)* or very small loans to women. It is the latest loan product offered to a group of women members. The amount varies between CFAF 10,000 to CFAF 30,000 per woman for three to six months. Borrowers are not required to hold a deposit account with the CLCAM.
- Short term loans of CFAF 10, 000 to CFAF 1 million are granted for a maximum of 12 months. These loans are not targeted to any specific use and include emergency loans that are CFAF 50,000 on average.
- Extended short term loans are granted for 24 months and range between CFAF 300,000 to CFAF 1 million.
- Medium term loans are granted for 13 to 36 months for a maximum of CFAF 1 million. These loans are use to finance agricultural production and were made possible through lines of credit from IFAD and the African Development Bank (ADB). Repayment is expected in installments.

CLCAMs currently use up to 70 percent of savings deposits as loan portfolio. Interest rates on loans are 10-17 percent annual depending on the CLCAM. A new CLCAM usually requires three months of deposit mobilization before starting any loan activity and can use up to 50 percent of deposits as loan funds. Loan granting decisions are made by the board of directors of 9-15 people. The board of supervisors made up of five people is responsible for monitoring loan granting, and repayment. To be eligible for a loan, members must be with their institution for at least six months, have a minimum of CFAF 3,000 in their savings accounts except for TPCF, *i.e.*, loans to women groups. Also 20 percent of the loan amount is required as guarantee in addition to other forms of physical collateral. In the future, loan amounts will rely less on a guarantee fund but depend more on the average amount of savings held over the past six months. This is a move in the right direction after management realized that members may well have been borrowing someplace else to be able to provide the 20 percent required guarantee. Thus, the CLCAM loan was becoming much more expensive to members than expected. Loans are granted to individuals as well as groups such as women and producer groups. Repayments can be made monthly, quarterly, annually or as a balloon payment for short-term loans. The average loan size remains CFAF 150,000 (US $ 300) for all CLCAMs.

CLCAMs have accumulated some default in their loans because they did not master the group loan technology with TPCF. By September 1997, the total amount of delinquent loans was CFAF 953.6 million i.e. 7.9 percent of outstanding loan portfolio. Management hopes to lower delinquent loans to 2 percent of the portfolio by June 1998 and have thus stopped TPCF which technology they are revisiting.

The *Unions Régionales des CLCAMs* (URCLCAMs)

The URCLCAMs are at the second-tier level of the network and are located in the capital of each of the seven regions of Benin. Their role is to define the general policies of the CLCAMs in the particular region, manage excess liquidity from member CLCAMs and provide technical support and monitoring of their activities. Each URCLCAM also holds a general assembly once a year and is managed by a board of directors and supervisory board. Members of both boards are also board members of their respective CLCAMs. Each CLCAM in the region provides two of its elected management committee or board members to serve at the URCLCAM level.

The *Fédération des Caisses d'Épargne et de Crédit Mutuel* (FECECAM)

FECECAM was created as an apex organization with headquarters in Cotonou in July 1993. Membership at FECECAM is made up of URCLCAMs (7) whose members are individual CLCAMs. To become a member/shareholder, each URCLCAM must pay CFAF 1 million (US $ 2,000) to the federation. Only URCLCAM can be shareholders and benefit from the followings:

- Placement of their excess liquidity with the federation
- Benefit from all the services (training, continuing education, and audit) performed by the federation
- Participate in the general assembly and vote on major decisions

- Get a copy of all financial statements and reports from the board of directors and supervisory board of the federation

FECECAM resources come from share capital, members current accounts and term deposit accounts, reserves, lines of credit, and grant subsidies. FECECAM earns 5.25 percent annual interest on its term deposit accounts with commercial banks and 4 percent on its current accounts.

3. Ownership Structure

As a credit union apex organization, FECECAM belongs to its members, *i.e.*, the shareholders. The general assembly of shareholders remains the supreme body. FECECAM is structured like its member CLCAMs with a board of directors and an advisory board. Members of both boards are elected officials, active management committee or board members of their respective URCLCAMs and thus CLCAMs. They are all volunteers who receive a per-diem in the course of performing their duties. In addition, FECECAM employs 40 salaried employees under the supervision of en executive secretary who is the general manager. The manager and his staff are responsible for the day-to-day decisions, while the control of the organization belongs to the board of directors and ultimately to the general assembly of member-owners.

The Board of Directors is made up of 15 members from several CLCAMs. Each CLCAM selects two elected officials to serve at the URCLCAM which in turn provides two representatives to serve at the federation level. The most profitable URCLCAM gets to select three representatives. The board of directors plays the role of the management committee and reports to the general assembly of shareholders.

The Supervisory Board is made up of seven CLCAM officials elected for three years, renewable just once. The role of the board is to control all operational expenses, as well as monitor members of the board of directors. The supervisory board also reports to the general assembly of shareholders.

The General Assembly of shareholders is held once a year and makes all the final decisions on general policy matters, and elects all board members who are responsible for implementing all the passed resolutions. Representatives at the general assembly of the federation include four members from each URCLCAM, *i.e.*, two from the board of directors, and two from the supervisory board, and one member from each CLCAM. The general assembly must take place within eight months of the end of the fiscal year. Decisions made at the general assembly are binding to all members of the federation.

4. Management/Staff Administration

FECECAM is managed at the apex level by an executive secretary hired by the board of directors. The executive secretary supervises a staff of 40 salaried employees including 20 inspectors responsible for the monitoring and supervision of the seven URCLCAMs. These inspectors do not reside at the headquarters of the federation in Cotonou but instead work with the rest of the URCLAMs staff. The Technical Secretariat of the Federation (TSF) is the brain of the organization and includes four units: audit and inspection, network development, human resource development and training, accounting and financial operations. None of the salaried employees can be shareholders in the organization. The executive secretary is only responsible of the day-to-day management while control of the organization belongs to the elected board of directors.

5. Governance Structure

As with any credit union structure, there is an omnipresent conflict of interest and power struggle at FECECAM between the elected board members and staff member over governance issues. Paid staff members complain that their advices on professional and technical matters are not taken into account by elected board members. Members of the board of directors who have ultimate control of the organization may be overstepping their role in an effort to keep abreast of all developments within the organization and by fear that the staff might not work in the best interest of the shareholders. The souvenir of the failed CNCA due to mismanagement is still fresh in the board's memory. Ultimately such an atmosphere of mistrust where the staff feels unappreciated and unmotivated is very unproductive. One way FECECAM is trying to solve the governance issue and alleviate the power struggle is to engage more dialogue between both parties by undertaking some CLCAM visits together and coming up with possible solutions to problems together. Seminars have also been organized and sponsored by donors on how to achieve a better relationship between staff and elected board members. At the time of the field visit for this report, the staff at FECECAM felt like relations were improving and that their views were being increasingly considered in the management of the organization.

III. APEX POLICIES AND OPERATIONS

1. Selection of Clients

FECECAM clients are the URCLCAMs and their membership, *i.e.*, individual CLCAMs. However, only URCLCAMs are considered shareholders of the federation. Among the services FECECAM performs for its clients are:

- Control, audit, and inspection
- Technical support, training, and promotion
- General supervision
- Application of prudential ratios and other financial regulations

The Technical Secretariat of the Federation has created seven regional audit and inspection units run by one inspector and an assistant. Although each CLCAM is free to define its policies on loan and deposits, the federation helps URCLCAMs enforce whatever policies they have agreed on. FECECAM services to URCLCAM are being subsidized for now but will not be free in the future.

FECECAM is not a full Central Financing Facility and it grants loans at 7 percent annual interest rate only to URCLCAMs that have a liquidity problem from a line of credit created by accumulated surplus funds from all URCLCAMs. FECECAM then requires that the borrower deposit 50 percent of the loan amount in a term deposit account with the federation, as a risk management measure. The URCLCAM then grants loans to their member CLCAMs at 8 percent annual interest rate. The ultimate borrowers, *i.e.*, the CLCAM shareholders get their loans at 13-17 percent annual interest rate.

2. Monitoring and Risk Management

Monitoring of the network is performed through the TSF according to a well thought scenario. First, since September 1997, every URCLCAM has its audit and inspection unit with its own team of two resident inspectors who periodically review all individual member CLCAMs. Any CLCAM with more than 5 percent loan default is suspended from further loan activity until the situation improves. There is one inspector and an assistant per seven CLCAMs who helps the credit unions monitor their loans and deal immediately with any delinquency. Of course internal control of the CLCAM is one of the prime responsibilities of the supervisory board who monitors also the activities of the board of directors. Second, twice a year, a team of three people including the regional inspector, the assistant from another region, and the chief-accountant undertake cross visits of the CLCAMs and CVECs. That allows FECECAM to double check and cross check its inspectors and minimize any attempt to defraud the organization by accomplices from the same region. This is all part of a five-point chain of control of the network that include:

- Control by the CLCAM supervisory board
- Control by local CLCAM accountants
- Control by the URCLCAM chief regional accountant
- Control by FECECAM regional inspectors
- Control by an external auditor

This five-point chain of control put in place since 1993 is meant to identify problem areas early on and also to help credit union members produce reliable and complete financial records, especially for those CLCAMs which are not yet computerized.

3. Accounting and Management Information System (MIS)

While all URCLCAMs are computerized, most CLCAMs are not. Computerization of the whole network would allow the production of more accurate information and financial data and make monitoring by TSF a little easier. It would allow the network to save time and money while ensuring better performance. The accounting system at FECECAM relies on INFOCOOPEC which is a software that has proved very successful with other credit union networks such as the one in Togo. However, FECECAM seems to have outgrown INFOCOOPEC but has not developed its own system yet. Of course the need of a well adapted accounting package is crucial, especially in a growing organization and the sooner FECECAM hires someone to develop an internal system, as recommended by an external consultant, the smoother the rest of the system units and departments would run. For an organization who wants to take advantage of the new PARMEC law[16] and transform itself into a true financial intermediary, it is crucial to possess a management system that would help deal with the complexities involved in conforming with the BCEAO[17] accounts regulations.

IV. PERFORMANCE OF THE APEX

1. Growth and Expansion

FECECAM inherited of 42 CLCAMs in 1993 and have seen a tremendous growth in its membership ever since. FECECAM oversees today the largest credit union network in West Africa. The number of CLCAMs then increased 52 percent to reach 64 CLCAMs in December 1996. By September 1997, there were 82 CLCAMs (28 percent increase) and seven regional units or URCLCAMs have also been created in all the seven regions of the country. Each URCLCAM has an average membership of eleven CLCAMs. The number of shareholders grew from 182,574 in December 1996 to 210,651 in September 1997, representing a 15.4 percent increase (Table 1). Deposits increased 31.5 percent in real terms from 1995 to 1996. Deposits reached 17.7 billion (US $ 35.4 million) in September 1997. The real growth in loans outstanding was 48.2 percent from 1995 to 1996. By September 1997, the loan outstanding amount 12.1 billion (US $ 24.2 million). The total number of loans increased from 62,054 in 1995 to 69,359 in 1997 representing an 11.8 percent increase. The large increase in outstanding loan portfolio that occured between 1995 and 1996 from CFAF 6.7 million in December 1995 to CFAF 10.5 billion in December 1996 was due to some relaxations in the loan policy and introduction of a group loan technology. Unfortunately, that resulted in an increase of 162 percent in the number of delinquent loans that the CLCAMs are still trying to recover. The lesson to be learnt in this case is that growth must not be realized at all cost and especially at the expense of good financial and prudential management.

The growth projection for the year 2001 is to reach 100 CLCAMs, 140 CVECs, 500,000 shareholders, CFAF 43 billion (US $ 86 million) in 1 billion deposits accounts, and CFAF 36 billion (US $ 72 million) in loans. The projected number of CLCAMs indicates a 22 percent growth which is in line with previous growth data. However, loans would have to increase by 197.5 percent over a period of four years, i.e., a yearly increase of 50 percent. The last time such an increase occurred, it was also followed by a large delinquency rate and it can only be expected that FECECAM has learnt some lessons and will not trade off good management practices for reaching an unrealistic goal.

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16 The PARMEC law is the new law governing all mutualist and other microfinance organizations in several Francophone African countries.

17 BCEAO is the regional West African Central Bank.

2. Outreach

The CLCAMs are primarily located in rural areas, and with 210,651 shareholders in September 1997, they were reaching close to 15 percent of the rural active population in Benin. That is quite an achievement for any financial organization, especially in Africa. The average deposit size was CFAF 83,894 (US $ 167.8) and with CFAF 17.7 billion (US $ 35.4 million) in deposits in September 1997, CLCAMs were second only to the largest commercial bank in Benin as far as deposit mobilization is concerned. Loans were granted to 69,359 members, *i.e.*, 33 percent of the membership. The resulting average loan size in the network was CFAF 174,455 (US $ 349) representing 83 percent of the GDP of $418 in 1996. This also indicates that CLCAMs do not cater to the poorest in Benin nor to the rich. The strategy to reach more of the poor is embedded in the creation of CVECs that are located in villages and thus closest to the rural poor. Also group loans to women via TPCF have an average loan size of CFAF 20,000 (US $ 20) and cater thus to a much poorer segment of the population.

3. Sustainability

Repayment Performance

The performance of FECECAM can be assessed via the performance of its member CLCAMs. Up to December 1995, the repayment rate in all CLCAMs was 98 percent. As a result of some bad loans made in 1996, repayment rate went down to 94 percent. Out of 64 CLCAMs in operation that year, only five were in deficit. However, in September 1997, repayment rate decreased further to 92 percent with CFAF 953.6 million (US $ 1.9 million) in delinquent loan amount. Management at FECECAM hopes to decrease the percent of delinquent loans from 7.9 percent to 2 percent by June 1998, but it is not very clear what is being done to reach that goal.

At the apex level, all loans granted to URCLCAMs have been repaid in full. Since FECECAM has granted very few loans, it is premature to reach a general conclusion on its performance.

Operational Self-sufficiency

The balance sheet and income statement for FECECAM are in Tables 2 and 3. The most basic indicator of operational efficiency examines the organization's operating costs as a percentage of its average loan portfolio. This ratio reveals how much it costs the organization to lend one unit of its funds. Very high ratios of 378 percent in 1995 and 140.3 percent in 1996 were found at FECECAM. Thus, in 1996, FECECAM operational expenses were 140.3 percent of average outstanding portfolio meaning that CFAF 1.4 was spent for every CFAF 1 earned that year. These high ratios can be explained by the fact that FECECAM engages in very little loan activities while running a very costly technical assistance operation for member CLCAMs.

Operational self-sufficiency[18] examines the organization's ability to cover its operational costs with its operating income. Ratios at FECECAM were 52.5 percent in 1995 and 74.0 percent in 1996 indicating that the apex was increasingly being able to cover its operational costs by income generated from its activities. However, FECECAM was still unable to totally cover its operational costs, and for every CFAF 1 of expenses in 1996, FECECAM generated CFAF 0.74 in income.

Aggregate profitability is typically measured in terms of return on assets (ROA) and return on equity (ROE). The higher the return, the better. As shown in Table 2, ratios were very small in 1995 and 1996. ROA was 0.2 percent in 1996, indicating net income of CFAF 0.002 per CFAF 1 of assets owned during the year. ROE of 1.8 percent in 1996 indicates that net income of CFAF 0.018 was generated per CFAF 1 of equity owned that year. These very small ratios show that FECECAM was not a very profitable apex organization. However, that is not surprising given the nature of this apex which is engaged in a very small loan activity and channels mainly donor funds as grants to its members. In order to become a profitable institution, FECECAM would have to engage in more loan activities, charging positive real rates of interest, and also charging members and others for its technical assistance services.

Financial Self-Sufficiency and SDI Measures for FECECAM

The performance and sustainability of FECECAM depends on its financial self-sufficiency, *i.e.*, its ability to generate sufficient income not only to cover its operational costs of the organization but its financial costs as well. Performing a cost-structure analysis is the most comprehensive approach to analyzing the financial performance of an organization and involves the calculation of the net operating margin. Negative ratios of -21.3 percent in 1995 and -7.9 percent in 1996 indicate that FECECAM is not covering actual costs with income derived from its financial operations (Table 2). FECECAM did not earn any interest on loans made to CLCAMs but was able to generate revenues from its performing assets which are deposit accounts held at commercial banks (see income statement). Obviously, that was not enough to cover its overall costs.

The Subsidy Dependence Index (SDI).

To find out how much FECECAM relies on donor subsidies to perform its activities, it is necessary to calculate the Subsidy Dependence Index (SDI). The objective of the SDI is to provide a comprehensive method of assessing and measuring the overall financial costs involved in operating a microfinance organization (MFO) and quantifying its subsidy dependence. The SDI is a ratio that measures the percentage increase in the average on-lending interest rate required to compensate an MFO for the elimination of subsidies in a given year while keeping its return on equity equal to the approximate non concessional borrowing cost. The index assumes, for simplicity, that an increase in the on-lending interest rate is the only change made to compensate for loss of subsidy. An SDI of zero assumes that a MFO achieved full self-sustainability. An SDI of 100 percent indicates that

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18 Operational self-sufficiency is total operating income over operating expenses and loan loss provision.

a doubling of the average on-lending interest rate is required if subsidies are to be eliminated. Similarly, an SDI of 200 percent indicates that a threefold increase in the on-lending interest rate is required to compensate for the subsidy elimination. (Gurgand, Pederson, and Yaron, 1994).

Using available information for 1995 and 1996, only the SDI for 1995 yielded a very high figure of 11,290 percent. No figure was obtained for 1996 because FECECAM did not generate any loan interest income. All funds to members CLCAMs were donor grants channeled at zero interest. However, if 1995 is any indication, FECECAM would need to increase its interest rate to incredible proportions to be subsidy independent. Since the SDI focuses solely on the interest rate as a management tool, it is questionable whether it should be applied to an apex institution such as FECECAM which primary activity is geared towards providing technical assistance rather than granting loans. The SDI may become relevant once FECECAM transforms itself into a pure financial intermediary, which it plans to do in the near future.

V. CHALLENGES AND POTENTIAL FOR FECECAM

1. Problems Faced and Lessons Learned

From the beginning, FECECAM was confronted with the problem of restoring public confidence in the credit union network in Benin. The tremendous growth achieved by the CLCAMs over the years proved that FECECAM has achieved that first goal. However other challenges remain such as how to achieve an even deeper outreach and how to achieve financial sustainability of itself and its network. To reach more rural poor population, FECECAM would need to create more CVECs, i.e., organizations closest to the target population and that requires additional funds that may come from its own operations or donor subsidies.

2. Role and Challenges for FECECAM

FECECAM oversees the most impressive network of credit unions in West Africa. As an apex organization, FECECAM plays a very important role in institution building of its members. It plays an equally important role as a supervisor and or regulator of members CLCAMs. The biggest challenge remains for FECECAM to become an effective CFF and become a lender of last resort for its membership. Transforming into a real financial intermediary as is required by the CFF status calls for FECECAM to become financially sustainable.

3. Future Direction for FECECAM

The future direction for FECECAM calls for reaching financial sustainability. That can be achieved by several means under the transformation under CFF scenario. First, FECECAM can generate substantial revenues by intermediating between surplus and deficit units and granting loans at real positive rates of interest to members. Second, FECECAM can start charging for the services it renders. That would generate much needed funds. However, it is not known whether member CLCAMs can afford to pay for the full costs of services yet.

4. Implications for Donors: Should Apex be supported/replicated?

To pursue the future of FECECAM as an apex organization, donors would have to answer the following questions:

- Was FECECAM successful in some sense as an apex organization?
- What was FECECAM's contribution to the development of sustainable capacity at the retail microfinance level in Benin?

FECECAM's success as an apex organization is obvious. The contribution to the development of sustainable capacity at the retail level is well documented. However, it is limited to a network of organizations have similar features and would present less challenges comparatively if FECECAM had to expand its operations to other MFOs with different organizational designs.

The lessons that can be learnt from the experience of FECECAM are the challenges faced by an apex organization that oversees similar organizations and provides mainly free technical assistance. We do not know what happens when such an organization is also a real financial intermediary, lender of last resort. Could both activities be successfully managed by the same staff? What king of management would it take for such multiple tasks?

Table 1. Performance Indicators for FECECAM Membership (CLCAMs)

	1995	1996	1997[1]
Number of shareholders	132,715	182,574	210,651
Deposits (CFAF)	9,269,626,458	12,789,557,060	17,672,227,197
Real deposits (1990 CFAF)	5,594,222,365	7,358,778,516	--
Real deposit growth	--	31.5%	--
Loan portfolio (CFAF)	6,751,595,705	10,494,548,939	12,065,968,421
Real loan amount (1990 CFAF)	4,074,590,045	6,038,290,529	--
Real loan growth	--	48.2%	--
Number of loans	52,659	62,054	69,359
Delinquent loans (CFAF)	149,531,563	609,687,881	953,601,125

Source: FECECAM
Note: [1]: September 1997

Table 2. **Measuring FECECAM Operational Efficiency**

	1995	1996
Financial expenses (CFAF)	290,575,659	298,578,004
Operating Expenses (CFAF)	600,989,198	454,437,968
Total Expenses (CFAF)	891,564,857	753,015,972
Financial Income [1]	315,378,733	323,048,296
Operating income[2]	315,378,736	336,346,179
Total Income (CFAF)	909,961,337	764,007,184
Net Income (CFAF)	18,396,480	10,991,212
Financial Assets	5,314,238,655	5,382,200,098
Avg. Total Assets	2,708,808,153	5,455,300,859
Avg. Total Equity	300,208,134	612,010,707
Total Liabilities	4,817,199,037	4,869,380,268
Avg. Outstanding portfolio (CFAF)	159,000,000	324,000,000
Operating Expenses/ Avg.Outstanding Portfolio	378.0%	140.3%
Operational Self-sufficiency[3]	52.5%	74.0%
ROA[4]	0.7%	0.2%
ROE[5]	6.1%	1.8%
Gross Financial Margin[6]	0.9%	0.4%
Net Operating margin[7]	-21.3%	-7.9%

Source: FECECAM report

Notes:
[1] : Operating expenses are equal to personnel expenses, administrative expenses, including depreciation of fixed assets. They do not include financial costs and loan loss provisions.
[2] : Financial income = income from interest and loan fees
[3] : Operational self-sufficiency = Financial income /Financial + Operating Costs + Loan loss provision
[4] : ROA = Net income/Avg. Total assets
[5] : ROE = Net income/Avg. Total equity
[6] : Gross Financial Margin = (Financial income - Financial Costs) / Avg. Total assets
[7] : Net Operating Margin = Gross Financial margin - Operating costs / Avg. Total Assets

ANNEX 1.
Consolidated Balance Sheet Data for FECECAM (Amounts in CFAF)

	12-31-95	12-31-96
ASSETS		
Cash	1,000,000	1,000,000
Due from banks	4,662,435,230	4,352,318,410
Loans to CLCAMs	318,000,000	330,000,000
Earning (performing) Assets	**4,981,435,230**	**4,683,318,410**
Security Deposits & Guarantees	2,398,500	2,398,500
Other Financial Assets	142,172,428	511,205,520
Misc. Receivables	188,232,497	185,277,668
Fixed Assets (Plant)	510,087	132,499
Fixed Assets (Land and Equipment)	102,867,563	110,652,816
TOTAL ASSETS	**5,417,616,305**	**5,492,985,413**
LIABILITIES & OWNER'S EQUITY		
URCLCAM current accounts	470,311,995	725,928,219
URCLCAM Deposit accounts	3,843,100,000	3,413,100,000
Interest payable	59,347,041	28,765,653
Other liabilities	406,033,840	650,110,062
Accounts payable	38,406,161	51,476,334
Total Liabilities	**4,817,199,037**	**4,869,380,268**
Share Capital	6,000,000	6,000,000
Donor Invest. subsidy grants	432,178,106	444,375,771
Reserves	143,841,682	162,238,162
Year-end Net Income	18,396,480	10,991,212
Total Equity	**600,416,268**	**623,605,145**
TOTAL LIABILITIES & OWNER'S EQUITY	**5,417,615,305**	**5,492,985,413**

Source: FECECAM

ANNEX 2.
Consolidated Income Statement Data for FECECAM (Amounts in CFAF)

	12-31-95	12-31-96
INCOME		
Interest Income on current accounts	22,596,869	36,350,294
Interest income on term deposit accounts	287,232,992	286,698,002
Loan Interest income	5,548,872	0
Income from performing assets	**315,378,733**	**323,048,296**
Equipment Subsidies	53,763,525	45,805,095
Operational Subsidies	540,819,076	381,855,910
Surplus on sale of equipment	3	12,375,716
Exceptional surplus	0	922,167
Other Income	**594,582,604**	**440,036,721**
TOTAL INCOME	**909,961,337**	**764,007,184**
EXPENSES		
Interest paid on current accounts	48,621,961	70,420,914
Interest paid on term deposit accounts	241,953,698	227,377,465
Loan Interest expense	0	290,424
Commissions	0	489,201
Financial Expenses	**290,575,659**	**298,578,004**
Salary expenses	74,910,269	65,400,302
Material Purchases	23,239,534	26,050,780
Per-diem expenses	51,099,996	45,039,519
Other external charges	392,734,178	252,713,740
Depreciation expenses	53,822,631	45,805,095
Exceptional charges	5,042,490	19,428,532
Adjustment	140,000	0
Operating expenses	**600,989,198**	**454,437,968**
TOTAL EXPENSES	**891,564,857**	**753,015,972**
NET INCOME	**18,396,480**	**10,991,212**

Source: FECECAM

Note: [1]: Other income includes loan application and processing fees, and income on clients' deposits

ANNEX 3.
Subsidy Dependence Index (SDI)

Computation of the SDI:

$$SDI = \frac{S}{LP * i}$$

where:

$$S = A(m - c) + [(E * m) - p] + K$$

and:

S = Annual subsidy received by the MFO;

A = MFO concessional borrowed funds outstanding (annual average);

m = Interest rate the MFO would be assumed to pay for borrowed funds if access to borrowed concessional funds were eliminated;

c = Weighted average annual concessional rate of interest actually paid by the MFO on its average annual concessional borrowed funds outstanding;

E = Average annual equity;

P = Reported annual profit (before tax) (adjusted, when necessary, for loan loss provisions, inflation, etc.);

K = The sum of all other annual subsidies received by the MFO (such as partial or complete coverage of the MFO's operational costs by the state);

LP= Average annual outstanding loan portfolio of the MFO;

I = Weighted average on-lending interest rate earned on the loan portfolio of the MFO.

Table 1. Calculating SDI over the years for FECECAM[1]

Item	1995	1996
Concessional borrowing = A	0	0
Concessional rate of interest paid by MFO=c	0.0%	0.0%
Market lending rate = m	16.75%	16.75%
Annual average equity = E	300,208,134[a]	612,010,707
Subsidy on equity = (E*m)	50,284,862	102,511,793
Profits = P (losses)	18,396,480	10,991,212
Grants and Benefits = K	594,582,601	427,661,005
Total subsidy = S	626,470,983	519,181,586
Revenue from lending = LP*i	5,548,872	0
SDI	**11290.1%**	**??**

Source: Fececam Financial Statements

Note: 1: All absolute amounts are in CFAF

[a]: Average annual equity for 1995 was calculated by assuming zero for 1994 due to unavailable data.

In 1996, FECECAM did not generate any interest income because loans were granted to CLCAMs at no interest from donor grants funds.

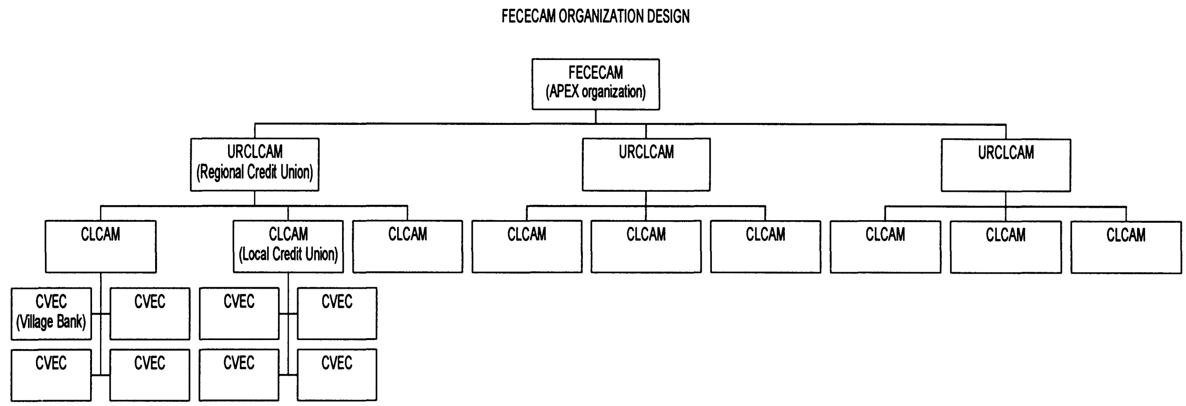

Figure 3. FECECAM Organizational Design

CHAPTER 5. CONCLUSIONS AND RECOMMENDATIONS

The purpose of this report was to analyze some apex organizations in Africa, and in Benin in particular. The main questions the report tried to answer are the following:

- Was the organization successful in some sense as an apex organization?
- What was the organization's contribution to the development of sustainable capacity at the retail microfinance level in Benin?

I. LESSONS LEARNED FROM PADME

In the case of PADME, the report portrayed an organization whose success could only be evaluated with respect to its first-tier activities, i.e., granting direct loans to microentrepreneurs. PADME successfully reached more than 7,000 entrepreneurs and was able to achieve operational self-sufficiency in just four years of operation.

PADME's success as an apex organization was more difficult to assess given the limitation in time and scale of its second-tier operations with local NGOs. The contribution of PADME to the development of sustainable capacity at the retail level has been also very minimum. First, most partner NGOs lacked basic knowledge and skills to successfully undertake microfinance activities. Second, PADME was not equipped to deal with institution building on a large scale, and third, it did not interact long enough with the NGOs to make a lasting impression and difference.

The lessons that can be learnt from the experience of PADME are directly related to organizational design. This is the case of inappropriate organization design for a particular activity. PADME was not originally designed to be an apex organization. It was used as a second-best solution by another donor to expand microfinancial services to rural areas. PADME served, thus, as a conduit for donor funds to alleviate some funds constraints. While this did not prove completely disastrous, several main question still remain. Can and should PADME be used as an apex organization in Benin and for what specific purpose? If PADME were to be used as an apex organization, its main role would be to strengthen the capacity of the few MFOs in the country and help other NGOs become microfinance intermediaries. That sounds like a very difficult and costly proposition that would require providing PADME itself with not only the funds but the personnel to carry the training as well. Several elements do not support the creation of an apex organization at this time in Benin. First, the size of the retail market, that is the number of MFOs that are potential clients of PADME, is very small. Economies of scale cannot be generated in the wholesaling function of the apex if it has to deal in a market of less than 20 partner retailers. Second, the majority of potential retail partners are NGOs with very limited experience, if any, in microfinance. The BINGOS program managed by Africare had provided financial support to 22 local NGOs of 11 were involved in microfinance activities by the end of 1996. However, most of these 11 NGOs merely used microfinance as a mean to attain their primary objectives which range from health and nutrition, literacy training, professional continuing education, community development, environmental protection, and food security. A study[19] of the 11 NGOs that dealt in microfinance with funds from Africare revealed the followings:

- Only two NGOs focused on microfinance as their primary activity
- Most NGOs have no organized structure for savings and loan activities
- There is a lack of qualified personnel with microfinance experience both at the management and staff levels.

The study recommended that different strategies may be needed to improve the performance of NGOs dealing in microfinance. Upgrade NGOs into microfinance organizations; Provide support to struggling microfinance NGOs; Strengthen the capacity of the few NGOs with some microfinance experience.

II. RECOMMENDATIONS FOR PADME

Undoubtedly, the role of an apex in upgrading exercise of an NGO into an MFO which require a more demanding institution building exercise is more difficult to support and justify. A better alternative would be for donors to support PADME's first-tier operations and help it expand given that it has the right technology and accumulated experience, and knowledge. In fact, given PADME's current partnership with a commercial bank, i.e., financial bank of Benin, could be carefully analyzed in a context of a downgrading exercise for the bank. It should finally be recognized that in Benin, the limited available human capital for microfinance is concentrated at the first-tier level and thus, it would be most profitable to the industry to provide direct support to first tier MFOs instead of using an apex to promote NGOs that are unsustainable.

III. LESSONS LEARNED FROM FECECAM

The lessons learned from the experience of FECECAM are of a different nature. First, FECECAM is a credit union apex organization which manage organizations that are uniform in their design and operations. While it has successfully brought back consumer's confidence in the microfinance industry, achieved some noticeable outreach and operational self-sufficiency, is it the right tool to address the expansion of the microfinance frontier? The challenge for FECECAM is already great and consists in bringing its network to financial sustainability and successfully transforming itself into a financial intermediary.

IV. RECOMMENDATIONS FOR FECECAM

FECECAM would not be the right instrument to expand the frontier of microfinance by expanding its activities to other MFOs, most of whom are inexperienced NGOs. FECECAM has more than enough organizations to deal with and should be kept as apex organization serving its

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member credit unions. NGOs in Benin do not have either the capacity or the experience to deliver microfinance services in a sustainable manner. Thus, the demand for financial services by the population in Benin is still largely unmet and helping to reach more people through structured organizations like credit unions might be a better strategy. Economies of scale could be quickly realized by helping FECECAM to expand its network and outreach using a well known and successful methodology. A collaboration between some microfinance NGOs and FECECAM can also be feasible to create more CVECs following the model of Freedom from Hunger in establishing village banks. The present projected growth of the network to attain 107 CLCAMs and 144 CVECs by the year 2001 calls for continued donor subsidies of US $ 20,000 to US $ 50, 000 (Fruman, 1997). While donor support is needed, it should be carefully administered such that it does not conflict with the primary mission of credit unions, *i.e.*, deposits mobilization. Donor funds should continue to support capacity building of retail credit union organizations, giving the time to FECECAM to achieve its goal of financial institution, a first step in becoming financially self-sufficient. Donor support should also be accompanied by a careful monitoring of the apex to achieve even better performance, and stay competitive by developing better management tools, minimizing costs, and improving services and products for its clientele. Ultimately, FECECAM future well-being is heavily dependent on how carefully it manages growth taking into account its ability to deliver its services in a professional and sustainable manner.

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